

Message Text

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ACTION ARA-20

INFO OCT-01 ADP-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 AGR-20 L-03 IO-13 RSR-01 /131 W

----- 065157

R 101930Z AUG 73

FM AMEMBASSY MANAGUA

TO SECSTATE WASHDC 2189

C O N F I D E N T I A L MANAGUA 3380

E.O. 11652: GDS

TAGS: EFIN, NU

SUBJECT: COMMERCIAL LOANS

1. DURING AN EXTENDED DISCUSSION WITH GENERAL SOMOZA ON AUGUST 8, 1973, SOMOZA ADVISED ME THAT HE HAD RECEIVED A TELEPHONE CALL FROM AMBASSADOR SEVILLA SACASA, STATING THAT INQUIRIES HAD BEEN MADE OF THE AMBASSADOR BY THE DEPARTMENT REGARDING A \$10 MILLION LOAN WHICH HAD BEEN NEGOTIATED AND MADE BY THE GON WITH JAPANESE BANKING INTERESTS. SOMOZA SAID THAT HE WISHED TO CLARIFY THE STATUS OF THE COMMERCIAL LOANS WHICH THE GON HAS MADE IN THE RECENT PAST FROM VARIOUS COMMERCIAL SOURCES IN THE UNITED STATES AND ELSEWHERE.

2. SOMOZA STATED THAT AS OF THE PRESENT TIME THE GON HAD BORROWED, SINCE THE EARTHQUAKE, \$90 MILLION FROM COMMERCIAL SOURCES; \$40 MILLION OF THIS \$90 MILLION WAS FOR "ROLL OVER " PURPOSES, SINCE THE GON HAD AT THE TIME OF THE EARTHQUAKE DEMAND OBLIGATIONS TO NEW YORK BANKS OF THAT AMOUNT AND HAD BORROWED AT ADVANTAGEOUS RATES AND TIME TERMS AN EQUIVALENT AMOUNT, IN ORDER TO PAY ALL THESE DEMAND OBLIGATIONS WHICH HAD RELIEVED AN IMMEDIATE PRESSURE. THE OTHER \$50 MILLION WERE FOR DEVELOPMENT PROJECTS IN THE COMMERCIAL, AGRICULTURAL, AND OTHER SECTORS OF NICARAGUAN INDUSTRY, TO MEET REQUIREMENTS FOR DEVELOPMENT IN THOSE AREAS WHICH COULD NOT BE MET BY BORROWING FROM EITHER THE WORLD BANK, IDB OR USAID ON THE BASIS OF THE INDIVIDUAL CRITERIA OF LATTER MENTIONED LENDING

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SOURCES. SOMOZA STATED THAT THESE LOANS HAD BEEN NEGOTIATED FOR

VARYING TERMS RUNNING FROM APPROXIMATELY 10 YEARS TO AS MUCH AS 15 YEARS AT RELATIVELY ADVANTAGEOUS INTEREST RATES. HE STATED, FOR EXAMPLE, THAT THE JAPANESE LOAN HAD BEEN BORROWED AT 9.04 PERCENT INTEREST FOR A 15 YEAR PERIOD. HE INDICATED THAT THERE WAS A GRACE PERIOD OF THREE YEARS ON ALMOST ALL OF THESE LOANS. SOMOZA FURTHER INDICATED THAT THE ONLY ADDITIONAL LOAN PRESENTLY CONTEMPLATED WAS A \$10 MILLION LOAN FROM A FRENCH BANKING CONSORTIUM FOR ADDITIONAL CAPITALIZATION FOR INFONAC, WHICH AMOUNT WOULD BE USED FOR DEVELOPMENT PROJECTS NOT COVERED BY THE NORMAL CRITERIA OF INTERNATIONAL LENDING AGENCIES.

3. SOMOZA STATED THAT HE WAS FULLY AWARE OF THE FACT THAT THERE COULD BE A PROPER CONCERN ON THE PART OF THE UNITED STATES GOVERNMENT THAT HE NOT ALLOW THE GON TO BECOME OVER-COMMITTED AND THAT HE WAS CAREFULLY ASSESSING EACH OF THESE LOANS TO DETERMINE THAT THE DEVELOPMENT ASPECTS FOR WHICH THEY WERE MADE, FULLY JUSTIFY THEIR BEING ENTERED INTO. HE FURTHER INDICATED THAT HE DID NOT FEEL THAT ADDITIONAL COMMERCIAL BORROWING BEYOND THAT WHICH HAS BEEN MADE, WILL BE NEEDED.

4. COMMENT: A PARTICULAR POINT TO BE BORNE IN MIND IN CONNECTION WITH THESE LOANS IS THAT NORMALLY SUCH COMMERCIAL LOANS WOULD BE MADE DIRECTLY FROM THE FOREIGN COMMERCIAL BANK TO THE PRIVATE ENTREPRENEUR CONCERNED. IN THE CASE OF NICARAGUA, FOR VARIOUS REASONS, INCLUDING HISTORICAL, THE GOVERNMENT HAS BEEN AND IS WILLING TO USE ITS GOOD OFFICES TO ASSIST WITH ESSENTIALLY COMMERCIAL PROJECTS. THE WILLINGNESS OF THE GOVERNMENT TO GUARANTEE ENHANCES THE ATTRACTIVENESS OF THE PROJECT TO THE LENDER. THIS GUARANTEE, HOWEVER, IS PRO-OFFERED BY THE GOVERNMENT OF NICARAGUA, USING ITS GOOD OFFICES, ONLY AFTER IT HAS BEEN SATISFIED THAT THE PROJECT CONCERNED IS FULLY BACKABLE.
SHELTON

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 10 AUG 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: elyme
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973MANAGU03380
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS TIMBERLAKE
Errors: N/A
Film Number: n/a
From: MANAGUA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730845/aaaabhgr.tel
Line Count: 94
Locator: TEXT ON-LINE
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: elyme
Review Comment: n/a
Review Content Flags:
Review Date: 24 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24-Jan-2002 by thigpegh>; APPROVED <12 FEB 2002 by elyme>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COMMERCIAL LOANS
TAGS: EFIN, NU
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005